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RAILWAY RATES.

BY W. MORTON GRINNELL

AMONG the statistics published by the Bureau of Labor, the following table shows the increase in the price of the chief commodities and in railway rates from 1899 to 1902: 100 representing the average price of commodities from 1890 to 1899:

Railway Rates.

	1899.	1902.	Advance.
Passenger	93.9	96.8	2.9
Freight	86.3	90.2	3.9

Prices of Commodities.

Farm products	100.0	130.5	30.5
Food, etc.....	98.3	111.3	13.0
Cloths and clothing	96.7	102.0	5.3
Fuel and lighting	105.0	134.3	29.3
Metals and implements.....	114.7	117.2	2.5
Lumber and building material.....	105.8	118.8	13.0
Drugs and chemicals.....	111.3	114.2	2.9
House-furnishing goods	95.1	112.2	17.1
Miscellaneous articles	97.7	114.1	16.4
All commodities	101.7	112.9	11.2

The comparision is still more striking when the year 1898 is taken, and the list of commodities confined to those entering chiefly into railway construction, maintenance and operation:

Railway Rates.

	1898.	1902.	Advance.
Passenger	96.2	96.8	0.6
Freight	89.7	90.2	0.5

Prices of Commodities.

Fuel and lighting	95.4	134.3	38.9
Metals and implements	86.4	117.2	30.8
Lumber and building material	95.8	118.8	23.0
Miscellaneous articles	92.4	114.1	21.7
All commodities	93.4	112.9	19.5

The tables are interesting as showing that, while the prices of all commodities have advanced, on an average, 13 points, and fuel, metals and lumber 25 to 35 points, railway rates have only advanced fractionally. There is, however, the further and most important factor in the case, that of labor. Statistics show that the average wages of railway employees have increased quite fifteen per cent. since 1898.

As concrete examples of the position of the railroads, with respect to the increased cost of labor chiefly, we have the last annual report of the Pennsylvania Railroad. This road is the oldest, the most conservative (in spite of its recent departure from its traditional policy), and the most liberal towards the public and its employees.

The organization of the Pennsylvania Railroad Company, as it is popularly known, is very complex, consisting, first, of the roads operated north and east of Pittsburgh, *i. e.*, the Pennsylvania Railroad Division, the United Railroads of New Jersey Division, the Philadelphia and Erie Railroad Division and the Buffalo and Allegheny Valley Division; second, those operated indirectly; and the lines west of Pittsburgh, which are operated by the Pennsylvania Company. As showing the proportionate increase in the cost of labor on the lines east of Pittsburgh operated directly by the company, I give a few statistics:

Pennsylvania Railroad Division Increase for 1903 over 1902 in wages paid:

Enginemen and firemen	\$369,799	15 or 9%
Roundhousemen	166,988	82 or 17%
Locomotives, fuel for	1,112,504	60 or 25%
Conductors, baggagemen, and brakemen.....	229,087	37 or 6%
Yardmen	346,495	84 or 17%
Switch-tenders and signalmen.....	76,725	75 or 13%
Watchmen	27,019	99 or 11%
Station agents and clerks	152,340	23 or 13%
Station labor	102,905	08 or 10%

United Railroads of New Jersey Increase for 1903 over 1902 in wages paid:

Enginemen and firemen	\$154,143	58 or 13%
Roundhousemen	23,743	58 or 10%
Locomotives, fuel for	438,693	23 or 22%
Conductors, baggagemen, and brakemen.....	121,068	41 or 12%
Yardmen	112,624	25 or 10%
Watchmen	14,454	47 or 5%
Station agents and clerks	99,840	93 or 10%
Station labor	87,602	66 or 4%

Philadelphia and Erie Division Increase for 1903 over 1902 in wages paid:

Enginemen and firemen	\$125,320 00 or 20%
Roundhousemen	29,157 00 or 23%
Fuel	304,000 00 or 35%
Conductors, baggagemen, and brakemen	122,000 00 or 22%
Yardmen	88,700 00 or 25%
Station agents and clerks	295,000 00 or 28%
Station labor	20,000 00 or 15%

While the increase in equipment would necessitate a larger number of employees, this proportion is relatively small, much the larger part consisting in higher wages paid to old employees.

The annual reports of the Illinois Central and the St. Paul Railroads show the same condition of affairs. The increase in operating expenses of the Illinois Central for the year ending June 30th, 1904, was 9.91 per cent. or \$2,957,000, of which advances in wages represented over 40 per cent., while the St. Paul shows an increased cost of \$737,064 in labor alone, and in material and supplies of \$1,400,000.

We see, therefore, that in one year the increase in the cost of labor is about 10 per cent. in the Pennsylvania, and in the Illinois Central and St. Paul nearly as much.

Thus, since 1898, the railways have been obliged to pay from 15 per cent. to 50 per cent. more for labor, fuel and all materials which they use, while their rates for passengers as well as for freight have advanced but fractionally, and are much lower in this country than in England, France or Germany, although labor and most materials are much higher here.

In this connection it is interesting to read what Mr. Priestly, the expert English authority, has to say:

"The present prosperity of the United States of America is, in no small extent, due to the low rates charged for transportation. This prosperity has reflected itself in an increase of wages all round, which, in its turn, has increased consumption and consequently production. These high wages are not due to the necessities of life costing the laboring classes in America more than they cost the same class in England. It is only the style of living which is better. At the back of it all there is, no doubt, the Protective Tariff; but that would have availed little without the cheapening of the cost of transportation. . . .

"In India, pooling and the territorial division of traffic are permitted, and railways are not only allowed, but are encouraged to protect themselves against competition. American railways enjoy no such protection (any act which tends to restrict competition is illegal), but have been

left to work out their own salvation as best they could. They have consequently been obliged to devote their efforts to reducing the cost of transportation, and the great bulk of the traffic can now be carried at rates which, a few years ago, were held to be impracticable and spelt bankruptcy. . . .

" Previous to the lowering of the rates by competition, consumption of many commodities was confined to a limited class of people, and to that class in a limited quantity. The lowering of rates not only brought these commodities within the reach of a wider class of consumers, but enabled the previous consumers to increase their consumption.

" To restore the railways to solvency, it was not possible to put up rates, even if this had been desirable with the experience before them, and the railway officials were forced to devise methods which would permit their carrying the traffic at these low rates and at the same time earn a dividend for the stockholders. The alert American mind was not long in devising those methods, and to-day railway rates for goods traffic, judged as a whole, are lower in America than in any other country in the world. . . .

" They (American railway men) have managed to do what no other country in the world has done, and that is, carry their goods traffic profitably at extraordinarily low rates, notwithstanding the fact they pay more for their labor than any other country."

The whole history of the railway industry is the story of a wonderful evolution. In its infancy, all communities were so anxious to profit by this new method of transportation that franchises, lands, and subsidies were lavished upon any group of individuals who would build a road; while, when the road was built, any rates which it charged were cheerfully and willingly paid. Human nature would be more than human if it waved aside the franchises, privileges and money thrown at it; and, while the better and more far-sighted men exercised some moderation and rendered the best equivalent possible in services for the advantages received, the more unscrupulous secured every advantage, every privilege and all the money possible, and rendered as little in return and at as exorbitant a price as possible. These were the golden years for promoters, construction companies and builders of railways, and expensive ones for the public; who, however, comparing the new with the old methods of transportation, willingly paid the heavy charges laid upon them and, nevertheless, made money and prospered. There were two great periods of this feverish and reckless railway-construction: from 1845 to 1857, and from 1866 to 1889, with varying intermissions, until the inevitable reaction began. Railways had been built far in excess

of the needs of the country, competitive lines were established where no necessity existed, rates were made as heavy as the traffic would bear, in order to bolster up useless and unprofitable lines and pay large dividends to the stockholders of better ones, and the old gratitude and friendliness of the shippers and the general public gradually changed into a deep-seated hostility.

Partly to blame for this condition of affairs was the hugging of the fetish of competition, unrestrained and *à outrance*. This false economic theory, ingrained in the minds of most men, frequent unscrupulousness in taking advantage of the craze of all communities for railroads and more railroads, and the credulity of the public in believing that any and all roads, in any section of the country, were gold-mines in another form, all led to the inevitable periods of disaster, receiverships and reorganizations, which occurred with every period of depression, until in the decade 1890-1899, even many of the oldest and best roads were subjected to these drastic processes.

In 1895, '96 and '97 more than seventy per cent. of the capital stock of the railroads in the United States paid no dividends, and more than fifteen per cent. of the funded debt paid no interest. At the end of this period, most of the inflation which had existed in many roads had been adequately punctured, and the bonds and stocks represented very generally money invested in the railroads.

Chastened as they were by this long and trying experience, and having learned a few economic truths, the managers were prepared to perform their duties to the public in a different spirit and manner from that which had hitherto generally prevailed; but the hostility which had become so general could not be immediately transformed into good-will.

Hostile legislation had been everywhere enacted, not only hostile, but irrational; taxes were increased and new ones levied.

The attitude of animosity which the Interstate Commerce Commission has assumed towards railroads is a reflection of that which has prevailed for many years—almost a generation—among the public. It should not, of course, exist in a *quasi-judicial* body, but as the composition of the Interstate Commerce Commission is affected by the usual political reasons, it is not unnatural that it should, consciously or unconsciously, represent the *animus* of its creators. This sentiment of hostility towards railroads, fortu-

nately decreasing, would probably disappear with a fuller knowledge by the public of the railway industry.

Whatever the failings of the great railway managers are, they cannot be accused of stupidity, and they have learned the lessons which, in the earlier period of railways, managers might be excused for not apprehending: that harmony aids and friction retards progress; that unrestrained competition is as destructive as other warfare; that railways can only prosper with the prosperity of the country through which they pass and of the country at large; that large traffic at low rates is preferable to less traffic at high rates; and that railroads are *quasi-public* corporations and owe a duty to the public.

That the Interstate Commerce Commission, instructed by the frequent overrulings of its decisions by the Supreme Court, has endeavored to examine more fairly into the propriety of increases in railway rates is evident from the report and opinion of the Commission *in re* advance of freight rates, in the case decided on April 2nd, 1903; as is apparent, also, their utter inability to cope with the subject. In this very important case the following roads were represented: Michigan Central, Lake Shore, Pennsylvania, Baltimore & Ohio, Wabash, Erie, New York Central, Southern and others.

With regard to the contention that, as the prices of all commodities and of labor have advanced, the railroads are justified in advancing rates, the Commission had this to say:

"The second reason is, that they should be allowed to increase their revenues owing to increased expense of operation. The whole claim stated upon the hearing, in varying forms, comes briefly to this: The present prices of commodities are high, therefore they can pay a higher freight charge. Times are good and railroads should share in the general prosperity; but high prices of materials and labor add to the expense of operation, and gross revenues must therefore be increased.

"Plainly the character of the question thus presented is entirely different from that of questions previously considered. It is no longer a question of what the traffic will bear, but rather of what the public should bear. Conditions are such that this rate *can* be advanced as between the people who pay it and the stockholders who receive it. Is the advance right? Every question as to the reasonableness of a rate may present itself in two aspects. First, is the rate reasonable estimated by the cost and value of the service, and as compared with other commodities? Second, is it reasonable in the absolute, regarded more nearly as a tax laid upon the people who ultimately pay that rate? The considerations

which determine the first of these aspects are of but little weight in determining the second, which we have now to consider.

"Every such inquiry involves the idea of some limit beyond which the capital invested in railways ought not to be allowed to tax other species of property. What is that limit, and how can it be fixed?"

It is a matter of common notoriety that the Post Office Department, which costs the public several millions a year in addition to the "tax" represented by stamps, could be run at a profit by a private corporation and the third and fourth class matter carried free, and so with all other departments of government, whether Federal, State or Municipal.

The question of governmental ownership is not, of course, entertained by serious men; although it is a favorite panacea of theorists, socialists and cranks whose heroic efforts and propaganda are usually coincident with some new and fresh scandal in a Government department.

Adequate but scientific supervision of *quasi-public* corporations, however, would be welcomed by all the better class of railroads, whose only complaint is that the Interstate Commerce Commission does not represent this type. A purely political body occupying a nondescript position, it has neither the power nor the knowledge to do effective work. Its crude conclusions are usually reversed by the Supreme Court, but that is a long way to go for a decision on rates, and the complexity and technicality of the issues involved put an unnecessary burden upon that body, and one which it should not be called upon to perform.

In the Michigan Central case, for instance, which involved a most important principle, *i. e.*, whether a railroad was not justified in appropriating a portion of its earnings to the betterment of its property, which (the rates being admittedly low) would seem to affect only the stockholders, the Interstate Commerce Commission reasoned as follows:

"But it may be urged that after paying its fixed charges, taxes and dividend out of its net income for the year 1902, it had left but a comparatively small amount. That year was one of prosperity, and it can hardly be expected that conditions will continue without interruption as favorable. Ought not a railway to be allowed to accumulate, in some form, a surplus during fat years which may tide over subsequent lean years? To this we would unhesitatingly answer in the affirmative. In times like the present a railroad company should be allowed to earn something more than a merely fair return upon the investment; but we

also think that it clearly appears that the Michigan Central is doing this.

"Within recent years this railroad, in common with many others in the United States, has been extensively improved. Grades have been eliminated, curves reduced, wood bridges replaced with those of iron and stone, station buildings rebuilt, equipment of all kinds greatly added to. All this has been rendered necessary, partly by increase in traffic and partly by the desire to handle this traffic in the cheapest possible manner; and it adds very materially to the value and the earning capacity of the property. Now, in so far as these outlays are reasonably necessary to keep the property up to its former standard, or perhaps to even a higher standard of operation, they are properly a part of the operating expenses of the road, but when they add to the earning capacity of the property, and therefore to its value, they are in the nature of a permanent improvement. Assuming that the stockholder is only entitled to exact from the public a certain amount for the performance of the service, he clearly has no right to both receive that amount in dividends and add to the productive value of his property. The policy of the Michigan Central has been to make these improvements, not by adding to the debt or the capital stock of the company, but out of its gross earnings as a part of the operating expenses."

This is hardly encouraging either for the large capitalist or the small investor. What a long distance we have travelled from the day when the State of New Jersey gave the Camden and Amboy Railroad the exclusive franchise of roads throughout the State forever, or from the days of huge land-grants and millions of subsidies! Thousands of millions of capital having been lured into investments in railroads by the attitude of the States and the public, the owners are now told that they are entitled to earn *something* on their capital. The time has been, and is liable to come again, when railroads had much better take up their tracks, abandon their franchises and realize on their assets what they can, instead of carrying on a ceaseless fight for existence, and for an adequate return for the capital and labor employed.

W. MORTON GRINNELL.